

EFFECTS OF WORKING CAPITAL MANAGEMENT ON THE EFFICIENCY OF FOOD AND BEVERAGE FIRMS

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Abstract

We examine the effect of working capital management on firm performance. Previous studies have generally used financial indicators to measure firms' performance. Our measure of performance, on the other hand, is productive efficiency, a key determinant of firms' competitiveness. To estimate the effect of working capital management on efficiency, we use stochastic frontier analysis (SFA), a well-known tool from production economics. Our empirical application, based on a sample of international food and beverage firms for the period 2012-2021, confirms a double effect of working capital management on firms' competitiveness which, in turn, points to the existence of an optimal level of working capital management. The double effect of investment in working capital consists of a positive effect on production frontier and a negative one on efficiency. These results are also robust to controls for the degree of implementation of companies' ESG policies. The results obtained also show that the negative effect on efficiency is increased in the case of companies with a high level of ESG.